# Please Don't Let Them Be Misunderstood!

How financial advisors consider clients' sustainability motivations before upcoming MiFID II Delegated Act: Insights and recommendations from European mystery shopping campaigns

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2° investing initiative

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In order to ensure its independence and the intellectual integrity of its work, 2DII has a multi-stakeholder governance and funding structure, with representatives from a diverse array of financial institutions, governments, and NGOs.

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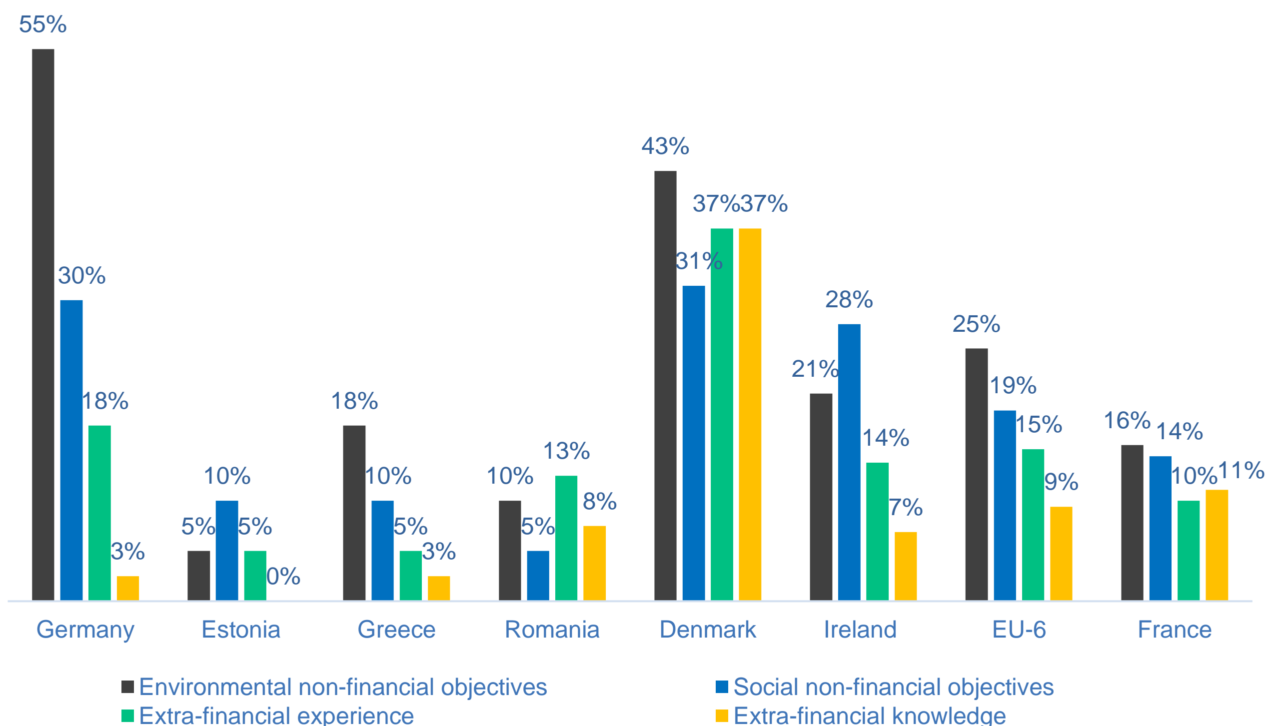
# Executive summary

In late 2021, we conducted a mystery shopping campaign in six European countries (Denmark, Estonia, Germany, Greece, Ireland, and Romania, for a total of 210 visits).

The campaign focused on the consideration of clients' sustainability motivations by financial advisors, a few months ahead of the application of MiFID II Delegated Act for the integration of sustainability into the advice process (scheduled to come into effect in August 2022).

This campaign, which follows two similar campaigns in France, showed that **practices across European financial advisors are very heterogeneous**, leaving European retail investors subject to a variable quality of service regarding sustainable finance.

When the advisor assessed your profile,
what aspects did they cover?




It also documents that **many financial advisors in Europe fail to comply with upcoming standards** when interacting with potential clients willing to invest in financial markets. In particular, only 5% of financial advisors, almost exclusively coming from Danish banks, systematically assessed the whole sustainability profile of their client. Furthermore, 53% lacked sufficient knowledge regarding sustainable finance concepts in general and 34% regarding green financial products specifically, again with strongly varying degrees between countries. Finally, 66% failed to recommend suitable products for impact-oriented investors and 39% were even prone to propose unsuitable products to potential clients who clearly expressed their sustainability motivations, potentially due to conflicts of interest.

**Table: summary of good and bad advisor practices observed during the 2021 campaign**

| | Good practices | Bad practices |
|---|---|---|
| Consideration of client's sustainability motivations | Initiate the assessment of sustainability motivations BEFORE the client expresses sustainability concerns or goals | Wait for the client to express sustainability motivations or concerns for initiating the assessment of his/her sustainability motivations |
| | Include in the suitability assessment of sustainability motivations questions about the sustainability goals of the client | Neglect to ask questions about the sustainability goals |
| | Align the product recommendation to the assessed/expressed sustainability motivations | Ignore the assessed/expressed sustainability motivations of the client |
| | Include both risk and sustainability assessments in the product recommendations | Ignore the client's risk profile to accommodate his/her sustainability motivations |
| Financial advisor's knowledge of sustainability issues and sustainable products | Have precise knowledge of sustainability concepts | Have shallow knowledge of sustainability concepts |
| | In case of insufficient knowledge, connect the client to a knowledgeable colleague | In case of insufficient knowledge, connect the client to a non-knowledgeable colleague or leave the client's legitimate questions unanswered |
| | Answer the client's sustainability questions with precise explanations | Answer the client's sustainability questions with fuzzy explanations (e.g., "sustainability is the bank's DNA") |
| | Answer the client's questions about the impact of financial products using appropriate arguments | Answer the client's questions about the impact of financial products using inappropriate arguments (i.e., relative to the impact of invested companies) |
| | Send detailed answers to the client's unanswered questions about products after the meeting | Leave the client to make his own research on the bank's products after the meeting |
| Influencing the client's decision | Stay neutral in the presentation of suitable products | Be overly positive or negative regarding suitable products based on personal beliefs |
| | Use rational, science-based arguments to back product or asset allocation recommendations | Use shallow arguments to comfort the client in its will to invest in sustainable products (e.g., "everybody is doing it") |
| | Acknowledge when the client's motivations cannot be matched by any of the available products | Use undue arguments to influence the client's choice towards available products |

Because the upcoming application of MiFID II Delegated Act will not mechanically solve those different issues (and may even create some new ones), we propose **a series of seven recommendations** to strengthen the legal and regulatory framework overseeing the advisor-client relationship:

1) Include wider sustainability motivations in the mandatory assessment of sustainability preferences (i.e. sustainability goals (having an impact, value alignment or/and improvement of financial performance through ESG) as well as sustainability features beyond those mentioned in MiFID II).
2) Create impact categories in the legislation (SFDR and MiFID II).
3) Provide a framework for financial advisors' training in sustainable finance (with clear ESMA guidelines on topics to be covered and certifications provided by national regulators).
4) Prevent predefined choice options built upon the product range of the distributor in the assessment of sustainability preferences
5) Offer clarifications on how to respond to clients' sustainability preferences and wider sustainability motivations.
6) Provide strict guidance regarding the possibility to adapt sustainability preferences (in case of missing suitable products in the bank's range of offer) and tools to help clients consider available products outside of the bank offer.
7) Exercise supervisory controls on financial advisors' practices using different tools (e.g., access to meeting recordings or mystery shopping).

That set of recommendations could also inspire financial institutions that consider they should go beyond existing minimum legal requirements to achieve the highest standard of quality and professionalism in their relationship with (the constantly growing number of) clients that want to invest sustainably.

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# Introduction

Mystery shopping is a convenient tool that is gaining momentum in the finance sector to understand professionals' behavior in front of clients. It's becoming common practice for European regulators dealing with consumer protection issues to integrate mystery shopping in their toolkit. In France, the AMF has been carrying out mystery shopping since 2011 to assess the conditions under which financial products are marketed, on the basis of the process of assessing the "customer" profile and needs, as well as the advice provided. In Germany, starting in 2022, mystery shopping is expected to become a regular feature of BaFin's supervisory actions[1]. At the European level, European Securities and Markets Authority (ESMA) announced, as part of its key priorities for 2020-2022, that it will coordinate mystery shopping on retail investment products[2].

2DII already has a long history with mystery shopping. Based on previous observations[3] that ESG preferences of retail investors were often not considered in financial advisors' recommendations, 2DII decided in 2019 to conduct a first mystery shopping campaign in France (90 visits through the main French banking networks) to understand how financial advisors meet consumers' ESG expectations. This first campaign was followed by a second wave of 90 mystery shopping visits carried out in France between August and November 2021 to bring an updated overview on this topic[4].

Mystery shopping visits enable us to get a fresh and controlled view of what happens behind closed doors, in the intimacy of a financial advisor-client meeting. In contrast with surveys or qualitative interviews of bank clients, they do not require respondents to mobilize their long-term memory, thus avoiding recalling mistakes.

As stated by the European Banking Authority[5], the most common conduct and consumer protection goals that could be feasibly pursued through mystery shopping activities include:

- Assessing compliance with regulatory requirements: "this includes evaluating compliance by the FIs with the regulatory requirements of banking products and services, for example on the adequacy of information disclosure concerning the product/service, in particular pre-contractual information duties, selling practices, fair treatment and an assessment of the suitability of a product or service for consumers' needs and profiles".
- Evaluating whether the FI's staff have an adequate level of knowledge and competences, especially "whether the relevant staff of FIs and appointed representatives possess and maintain an adequate and up-to date level of knowledge and competence in relation to the manufacturing, offering, and/or selling of particular products and services in order to achieve a high level of professionalism"
- Measuring compliance with and the effects of new regulatory changes: "this could also be done through a mystery shopping exercise carried out before and then shortly after a regulatory change has been implemented".

Focusing on the assessment of clients' sustainability motivations by European financial advisors before the application of Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021[6] (referred in this Report as "MiFID II Delegated Act on sustainability preferences"), our 2021 campaign was designed to exploit the full potential of mystery shopping for providing valuable insights in those three directions.

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[1] BaFin is currently conducting the first field test
[2] ESMA Strategic Orientation 2020-22 (9 January 2020, ESMA22-106-1942)
[3] Letter from the AMF's Investment Observatory n.35, September 2019
[4] In the context of Finance ClimAct/Life IP project, 540 mystery shopping visits are planned in France by 2024
[5] European Banking Authority (2021)
[6] Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organizational requirements and operating conditions for investment firms

Indeed, the goals set for this campaign covering six European countries (Denmark, Estonia, Germany, Greece, Ireland, and Romania) were to:

1) Evaluate whether financial advisors are assessing potential clients' sustainability motivations before the application of MiFID II Delegated acts on sustainability preferences expected in 2022
2) Monitor whether financial advisors appear to have adequate knowledge about sustainable financial products before issuing recommendations
3) Offer an attitudinal benchmark before the application of MiFID II Delegated acts on sustainability preferences accessible for future comparisons.

The results of the campaign, presented in this report, give an overview of various practices of financial advisors across Europe and challenge the upcoming regulation's capability to address the most common pitfalls.

## INFOBOX: (WIDER) SUSTAINABILITY MOTIVATIONS

**We use in this paper the terminology of "sustainability motivations" to describe all potential sustainability related expectations of clients for their investment in the framework of our mystery shopping visits and not "sustainability preferences" to avoid confusion with the narrower definition of sustainability preferences in MiFID II Delegated Act. Sustainability preferences in MiFID II Delegated Act are linked to very specific sustainability motivations such as Taxonomy Alignment, Do No Significant Harm or Principle Adverse Impact. Since our mystery shopping visits were conducted before MiFID II Delegated Act became effective, we did not evaluate how financial advisers assess sustainability preferences as defined in MiFID II Delegated Act, but we evaluated the consideration of a wider set of sustainability motivations the client may have (that would potentially not be captured by the definition of sustainability preferences).**

**It means that when we mention "sustainability preferences" in this paper, we refer precisely to the definition contained in MiFID II Delegated Act.**

**The concept of "wider sustainability motivations" capture additional information about the client's sustainability expectations such as his or her sustainability goal(s) (i.e. why the client wants to invest sustainably). These sustainability goals are i) to have impact ii) to alignment the investment with her or his values and/or iii) to increase the financial performance through ESG. Wider sustainability motivations also capture additional sustainability topics the client wants to support or to avoid and which are not covered by MiFID II Delegated Act on sustainability preferences. This additional information can be used to link a client profile to more product features than the ones described in MiFID II Delegated Act and can increase the suitability of the recommended product(s).**

# Part I – The role of financial advisors in the transition to a sustainable economy

Financial advisors represent **a key entry point** for households to obtain information about financial products, especially innovative ones. They often represent the main information channel when it comes to financial investments [7].

Thus, financial advisors are obvious locutors to learn more about sustainable finance options, as shown by several recent surveys. A European study conducted by the asset management firm Nordea in 2021 revealed that 73% of European retail investors identify their advisor as their main source of ESG information[8]. Likewise, a mirroring survey in Italy[9] run in 2020, asking questions to both financial advisors and their clients, has shown that a vast majority of Italian retail investors (78%) rely on the advice of their financial advisors when seeking information on socially responsible investments. A study conducted in 2021 on behalf of the French regulating body of financial markets (AMF) showed that bank advisors are the preferred channel to get information about sustainable finance solutions for French retail investors too[10].

The need to get clear information about sustainable products from a credible source is enhanced by the **high level of complexity** that sustainable finance poses to retail clients. The integration of notions of impact and value-alignment on top of risk and expected return in the decision-making process creates an optimization problem across four dimensions (instead of only two for conventional investors), leading to a multitude of (cognitively demanding) necessary tradeoffs. It also pushes the client to pay attention to more data (i.e., funds' sustainability reports or labels' methodology) potentially leading to an **information overload**. Investors might be faced with too much, too difficult, and too confusing information about sustainable investments. Information overload and excessive complexity might lead private investors to procrastinate and defer their sustainable investment decisions[11].

Consequently, researchers have repeatedly argued that financial advisors could strongly contribute to a massive adoption of sustainable investments, especially among retail investors[12]. The central role of financial advisors for the adoption of sustainable finance solutions has also been recognized by European institutions. The European Commission's High-Level Expert Group on Sustainable Finance (HLEG) has discussed the role of financial advisors to accelerate sustainable finance and socially responsible investment across Europe[13] while the Sustainable Finance Action Plan explicitly recognizes the importance of investment product distributors in this regard, noting that "*by providing advice, investment firms and insurance distributors can play a central role in reorienting the financial system towards sustainability*".

Unfortunately, it appears that there is **a mismatch between clients and advisors' perceptions** regarding the role of the advisor. The clients tend to expect proactive explanations and recommendations about sustainable products by advisors while advisors expect clients to disclose their clear preferences for sustainable investments before providing them with information and recommendations[14]. But private investors may not demand information from their advisors on sustainable financial products due to limited awareness and knowledge.

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[7] Opinion Way (2021)
[8] Nordea (2021)
[9] Linciano et al. (2021)
[10] Opinion Way (2021)
[11] Pilaj (2015)
[12] Paetzold et al. (2015), Heinemann et al. (2018), Strauss (2021)
[13] EU High-Level Expert Group on Sustainable Finance (EU HLEG). Financing a Sustainable European Economy. Final Report 2018 by the High-Level Expert Group on Sustainable Finance; European Commission: Brussels, Belgium, January 2018.
[14] Strauss (2021)

The mirroring study in Italy confirms that investors' and advisors' views diverge with respect to the proactivity of the financial advisor in recommending sustainable investments. More than a third of clients declare that they have not received any proposals, whilst only 10% of advisors state that they have never recommended sustainable investments in contrast to 54% reporting to have been proactive.

As a consequence, financial advisory talks seem to be stuck in a vicious communication circle[15] resulting in **a behavior-intention gap** at investor level and, at macro level, in **an untapped reservoir of saving** waiting to finance the transition to a more sustainable economy.

The behavior-intention gap strikes the attention when one compares the willingness of retail investors to invest in sustainable products and their actual financial investments. For instance, in a representative survey in Germany, 45% of respondents indicate that they would choose sustainable investments as a new investment, but only 19% indicated that sustainability criteria played a role when selecting investments in the past[16].

Part of it should be ascribed to inadequate communication with financial advisors, as the proportion of clients that were proposed sustainable investments by their advisors fall short of the proportion that want to increase their investments in sustainable products. In Europe, 71% of retail investors say they want to increase their ESG allocation over the next 12 months, while only 38% report that their advisors recommended an ESG product in the last 12 months[17].

This is regrettable, as European households should play an important role in the sustainable transition. As mentioned in a previous report by 2DII[18], the overall funding gap in the 2020-2030 decade for the green transition in the European Union amounts to €340 billion per year. That funding gap could be fully absorbed by a reallocation of future household savings since it represents only 27% of total annual savings by EU households. A fluid and effective distribution of financial products that connects savers' sustainability goals to sectors in search for financing is thus essential.

For that purpose, the upcoming application of **MiFID II Delegated Act on sustainability preferences[19] may act as a game changer** since it will bind advisors to proactively ask for the clients' sustainability preferences, breaking the vicious circle previously exposed. The dysfunctional advisory talks between advisors and clients about sustainability may then be replaced by an effective exchange of information from both sides leading to a knowledgeable and confident reallocation of savings.

[15] Ibid.
[16] DIA 2020
[17] Nordea (2021)
[18] 2DII (2021)
[19] Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organizational requirements and operating conditions for investment firms

# Part II – Advisors' responsibilities in considering sustainability preferences according to MiFID II

The results of our mystery shopping visits must be put in perspective with the legislative and regulatory context around the role and responsibilities of financial advisors in considering sustainability motivations of clients and potential clients.

First, it is important to note that our developments will concern clients and potential clients (or prospects) without distinction, since the legislation itself refers to clients and potential clients indistinctly.

In previous work, 2DII advocated for imposing an obligation on financial advisors to assess sustainability motivations of clients by including them in the suitability assessment process[20]. We were thus satisfied to see the inclusion of sustainability preferences as a mandatory part of the suitability assessment under MiFID II with the publication of the Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021.

This text is expected to apply in 2022, hence, financial advisors met during our 2021 campaign of mystery shopping visits did not yet have to comply with it.

**INFOBOX: SUSTAINABILITY PREFERENCES IN MIFID II DELEGATED ACT**

**Sustainability preferences are defined in MiFID II Delegated Act on sustainability preferences as follows:**

**"'Sustainability preferences' means a client's or potential client's choice as to whether and, if so, to what extent, one or more of the following financial instruments shall be integrated into his or her investment:**

**(a) a financial instrument for which the client or potential client determines that a minimum proportion shall be invested in environmentally sustainable investments as defined in Article 2, point (1), of Regulation (EU) 2020/852 of the European Parliament and of the Council (*);**

**(b) a financial instrument for which the client or potential client determines that a minimum proportion shall be invested in sustainable investments as defined in Article 2, point (17), of Regulation (EU) 2019/2088 of the European Parliament and of the Council (**);**

**(c) a financial instrument that considers principal adverse impacts on sustainability factors where qualitative or quantitative elements demonstrating that consideration are determined by the client or potential client."[21]**

Before going further, a reminder on the process of the suitability assessment could be useful. MiFID II Directive[22] requires investment firms to ensure that the financial products they offer to retail investors are compatible with their investment objectives. MiFID II identifies a procedure whereby the investment firm collects information about a client and assesses whether a financial product is suitable – and this is known as the suitability

[20] See our report dated October 2017: "Non-Financial Message in a Bottle" (at the time sustainability motivations were designated as "non-financial investment objectives").
[21] Amended article 2(7) of Delegated Regulation (EU) 2017/565
[22] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU

assessment[23]. This suitability assessment happens during the meeting between the client (or prospect) and the financial advisor, before any financial product recommendation is made, and can be carried out face to face, by phone or also online.

To assess the suitability of financial products for a retail investor, MiFID II states that: "When providing investment advice or portfolio management the investment firm shall obtain the necessary information regarding the client's or potential client's knowledge and experience in the investment field relevant to the specific type of product or service, that person's financial situation including his ability to bear losses, and his investment objectives including his risk tolerance so as to enable the investment firm to recommend to the client or potential client the investment services and financial instruments that are suitable for him and, in particular, are in accordance with his risk tolerance and ability to bear losses."[24]

MiFID II is completed by ESMA Guidelines indicating that "information necessary to conduct a suitability assessment includes different elements that may affect, for example, the analysis of the client's financial situation (including his ability to bear losses) or investment objectives (including his risk tolerance)."[25]

In relation to sustainability motivations, ESMA indicates "it would be a good practice for firms to consider non-financial elements […] and […] collect information on the client's preferences on environmental, social and governance factors".[26]

Financial advisors are thus encouraged by the European regulator to consider non-financial elements and ESG preferences of clients (no precise scope is given by the regulator). Moreover, one could argue that assessing potential sustainability motivations of clients is already part of the overarching duty for investment firms and advisors to act honestly, fairly, and professionally in the best interest of the client[27]. **The extent to which financial advisors currently have to consider sustainability motivations in compliance with above provisions is not so clear. But financial advisors will soon be clearly compelled to assess sustainability preferences of clients and take them into account when recommending a suitable financial product.**

Indeed, on 21 April 2021, the European Commission published six amending delegated acts, which require financial firms, such as advisers, asset managers and insurers, to consider sustainability preferences of their clients and prospects. Changes were notably brought to MiFID II suitability assessment.[28]

MiFID II Delegated Act on sustainability preferences should enter into application on the 2nd of August 2022. It means that financial institutions should prepare to comply with this obligation, which includes making sure their processes, financial advisors and range of offer are prepared to meet client's sustainability preferences. Updated guidelines from ESMA should be published in advance of this date to support financial institutions.

Even though the integration of sustainability preferences in the suitability assessment is a big step, several precautions should be taken to make sure it heads for the right direction. We will present them in the general discussion.

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[23] Article 25 of Directive 2014/65/EU

[24] Article 25 (2) of Directive 2014/65/EU

[25] Examples of such elements are the client's: marital status (especially the client's legal capacity to commit assets that may belong also to his/her partner); family situation (changes in the family situation of a client may impact his/her financial situation e.g. a new child or a child of an age to start university); age (which is mostly important to ensure a correct assessment of the investment objectives, and in particular the level of financial risk that the investor is willing to take, as well as the holding period/investment horizon, which indicates the willingness to hold an investment for a certain period of time); employment situation (the degree of job security or that fact the client is close to retirement may impact his/her financial situation or his/her investment objectives); need for liquidity in certain relevant investments or need to fund a future financial commitment (e.g. property purchase, education fees)."

[26] Guidelines on certain aspects of the MiFID II suitability requirements (28 May 2018, ESMA35-43-869) 3.4 Annex IV – Guidelines, Section V.II, paragraphs 27 and 28

[27] Article 24(1) Directive 2014/65/EU

[28] It should be noted that similar changes were brought to the suitability assessment under Directive 2016/97/EU of the European Parliament and of the Council of 20 January 2016 on insurance distribution (IDD). In this Report we however focus on the suitability assessment under MiFID II.

# Part III – Research questions

The 2021 mystery-shopping visit campaign was implemented to better understand how financial advisors integrate sustainability motivations into their advice to potential clients.

Precisely, we were interested into three particular areas: i) the elicitation of potential clients' sustainability motivations; ii) the knowledge of financial advisors regarding sustainable finance concepts and products and iii) the (neutral or biased) stance of the advisor about the potential client's sustainability goals.

## Identifying client's sustainability motivations

The way financial advisors assess their clients' sustainability motivations is currently largely an unknown territory as sustainable finance products have just recently taken off and regulation providing requirements has not come into force yet.

Fortunately, a lot of research exists on how financial advisors elicit their clients' risk preferences as risk assessment has been a legal requirement for product distributors for a longer time. Research about risk points to widespread pitfalls in the risk preferences assessment that might be observed also for the assessment of sustainability motivations. Without clear guidance on an elicitation method for sustainability motivations, financial advisors may be subject to behavioral biases when evaluating their clients that might degrade their product recommendation.

In the risk context, classic behavioral biases on the advisor side include the false consensus effect (i.e., the tendency to consider that others share the same beliefs and preferences as yours)[29] and the use of stereotypes (i.e., the tendency to consider that the target share the same preferences as the presumed preferences of her/his social group)[30].

The use of stereotypes may be transferrable to the domain of sustainability motivations. For instance, women are generally considered to care more for sustainability issues than men, including in the domain of investing. Other stereotypes beyond gender may be subconsciously used, for instance age, education, income, or geographic location. This is due to common assumptions that young, urban, high income, highly educated people form natural targets for sustainable finance products, in the same way those groups are overrepresented among buyers of sustainable consumer goods. Even if the evidence about the rightness of those stereotypes is particularly thin with a significant fraction of academic studies concluding to no significant effects of sociodemographic factors (see table in the appendix), they might lead to the ignorance of strong sustainability motivations by clients outside of those groups.

In the end, informal clients' sustainability assessments could lead to improper perception of clients' needs and inadequate advice. As a first piece of evidence, the already cited study in Italy[31] found that advisors catch their clients' sustainability motivations only partially, as they generally underestimate the importance given by clients to sustainability and overestimate their inclination to be motivated by financial performance over anything else.

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[29] Research has found that an advisor's own portfolio is a good predictor of the client's portfolio even after controlling for the client's characteristics. An advisor with a higher personal risky share gives his or her clients higher risky shares, controlling for investor attributes (Foerster et al. (2012). Other research in the field or in the lab confirm that advisors rely on their personal beliefs and risk preferences when giving advice (Hadar & Fischer, 2008; Leuermann & Roth, 2012; Roth and Voskort, 2014).

[30] Researchers observed that advisors assign too much diagnostic value to certain demographic variables in estimating client risk tolerance (Roszkowski & Grable, 2005). The use of a gender stereotype considering that women are less prone than men to take financial risks is especially pervasive (Daruvala, 2007; Eckel and Grossman, 2002; Roth and Voskort, 2014).

[31] Linciano et al. (2020)

From a legal point of view, financial advisors are encouraged by ESMA to consider non-financial elements and collect information on the client's preferences on environmental, social and governance factors[32]. ESMA does not provide any further indication on how this assessment of sustainability motivations should be carried out.

More guidelines should come with the implementation of MiFID II Delegated Act on sustainability preferences that introduces a mandatory assessment of sustainability preferences of retail clients during the suitability assessment[33] .

Sustainability preferences will also be integrated in the suitability report to be provided by investment firms to retail clients.[34] This report includes an outline of the advice given and explains how the recommendation provided is suitable for the retail client.

We thus seek to understand if financial advisors already assess sustainability motivations of potential clients and if they do it thoroughly.

- **Research question #1: do financial advisors already assess potential clients' sustainability** motivations **thoroughly?**
    - **Research question #1a: do financial advisors assess potential clients' sustainability** motivations **proactively?**
    - **Research question #1b: do financial advisors consider potential clients' expressed sustainability motivations when they make product recommendations?**

## The advisors' knowledge of sustainable finance products

As they are perceived by clients as accessible experts who are their default entry point to financial products, financial advisors' technical knowledge is critical.

In surveys, **clients display high expectations regarding advisors' competence in sustainable finance**. In Europe, 81% of investors expect their advisors to be capable to give clear and simple explanations of ESG products, approaches, and terminologies; 79% that they can display knowledge of ESG and 73% that they can present new ESG investment offerings[35]. Financial advisors are thus expected to offset the clients' illiteracy regarding sustainable financial products.

Yet, like clients, **advisors are exposed to high complexity**[36]. This complexity is even higher as they must deal with complex financial services, complex client needs and complex financial products. Issues in dealing with this multi-layer complexity surely affect the quality of their advice.

Research has observed that advisors that consider the concept of sustainable investing as too "fuzzy" to understand are less likely to communicate the sustainable investment products to clients[37]. Researchers have also identified **a common "nuisance narrative" among advisors** in which sustainable investment is perceived as adding more complexity to the already very complex and difficult task to navigate financial markets. The advisors' response is that they prefer ignoring sustainable products because it is a "Pandora's box" of complexity and would lead to difficult questions arising[38].

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[32] Guidelines on certain aspects of the MiFID II suitability requirements
[33] See Amended article 54(2) Delegated Regulation 2017/565
[34] See Amended article 54(12) Delegated Regulation 2017/565 "When providing investment advice, investment firms shall provide a report to the retail client that includes an outline of the advice given and that explains how the recommendation provided is suitable for the retail client, including how the recommendation meets the client's investment objectives, his or her personal circumstances with reference to the investment term required, the client's knowledge and experience, the client's attitude to risk his or her capacity to sustain losses and his or her sustainability preferences."
[35] Nordea (2021)
[36] Paetzold and Marti (2016)
[37] Paetzold and Busch (2015)
[38] Paetzold and Marti (2016)

**Advisors often admit that they, themselves, lack adequate knowledge** regarding sustainable finance. In an interview study, German financial advisors attested limited knowledge about sustainability, a lack of qualification in the area of sustainable investment, and a missing orientation on sustainable investment products in their advisory talks with clients[39]. In Italy, nearly half of financial advisors (46%) confide to have zero knowledge about responsible financial investments and another third (38%) to have just a basic knowledge[40].

Lifting advisors' competence to match clients' expectations should be a priority. Nevertheless, it is interesting to note that **advisors may underestimate their own centrality in providing information to clients** about sustainable finance solutions. In Italy, it seems that advisors misunderstand their clients' preferences about information channels, overestimating the role of public institutions and downplaying their own role[41]. Another problematic mismatch that potentially degrades the quality of financial advice is about the assumed level of clients' knowledge about sustainable finance. When clients' self-assessments are compared to advisors' estimates, researchers obtain a mild correlation at most[42]. Advisors don't know with good accuracy which of their clients need additional information about sustainable products.

To summarize, the few existing studies have pointed out two main issues regarding advisors' knowledge of sustainable investments: advisors' insufficient knowledge and advisors' false views on their clients' own knowledge or will to access knowledge.

From a legal point of view, financial advisors are expected to have sufficient knowledge and competence to carry out the suitability assessment. MiFID II provides that member states shall require investment firms to ensure and demonstrate to competent authorities that persons giving investment advice or information about financial instruments firm possess the necessary knowledge and competence to fulfil their obligations[43].

This provision is completed by ESMA Guidelines for the assessment of knowledge and competence[44].

Moreover, it will soon become a clear obligation with the application of MiFID II Delegated Act on sustainability preferences. Financial advisors will notably have to explain to clients the differences between the different categories of sustainability preferences defined in MiFID II Delegated Act[45]. This task of educating clients on different degrees of sustainability of financial products to allow them to take well-informed decisions implies a necessary solid training on sustainable finance products.

It is thus interesting to investigate the current level of knowledge and competence of financial advisors regarding sustainable finance concepts and products.

- **Research question #2: do financial advisors appear to be knowledgeable regarding sustainable finance concepts and products and try to transmit this knowledge to clients?**
    - **Research question #2a: do financial advisors have a good understanding and mastery of sustainable finance concepts to feed a fruitful discussion with clients?**
    - **Research question #2b: specifically, do financial advisors understand the concept of investor impact and respond to impact-motivated investors adequately?**
    - **Research question #2c: in case of insufficient knowledge about sustainable finance concepts, how do financial advisors react?**

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[39] Heinemann et al. (2018)
[40] Linciano et al. (2020)
[41] Ibid.
[42] Ibid.
[43] Article 25 (1) Directive 2014/65/EU
[44] ESMA Guidelines for the assessment of knowledge and competence (3 January 2017, ESMA71-1154262120-153 EN (rev)). Criteria for knowledge and competence for staff giving investment advice are detailed in section 8 of the guidelines.
[45] Recital 6 of Delegated Regulation (EU) 2021/1253

# Influencing and exploiting clients' sustainability motivations

As in other professional contexts, conflicts of interest may arise within the client-advisor relationship because this one includes several parties (the client, the financial advisor and, in most cases, the financial advisor's employer), each of them having their own set of objectives, potentially conflicting with the ones of the other parties.

Different types of possible conflicts of interest have been frequently discussed by researchers or professional organizations, for instance:

- Recommending a higher fee product over a lower fee product to improve firm revenues (potential conflict between firm and client).
- Recommending a product in order to raise capital for a fund recently launched which might encourage marketing of the fund to clients for whom it is not the most suitable product.
- Recommending easy-to-sell products in relation with market fads which offer the opportunity for investment management firms to gather assets quickly (or at least to protect them from being captured by other firms).

Conflicts of interests within the client-advisor relationship have been presented in theoretical models and confirmed empirically. Theoretical developments include Inderst and Ottaviani (2012) and Gennaioli et al. (2015) who show that if clients naïvely believe that they receive unbiased financial advice despite the fact that advisors are indirectly compensated for advice through fees and commissions they generate, financial advisors can exploit these naïve clients and increase profitability by selling them products with high fees and commissions. Indeed, the higher the level of trust of individual investors in their advisors, the higher fees and commissions their advisors can charge. Empirical observations confirm that recommendations by financial advisors result in the selection of high-fee financial products that degrade the financial returns for the clients, especially inexperienced and inattentive ones[46].

Sustainable finance seems to be particularly prone to significant conflicts of interest, for different reasons:

i) It implies high complexity for clients that may give up in trying to understand and instead blindly trust their advisors;
ii) It also implies high complexity for advisors that may try to simplify their role by proposing products that are catchy and easy to understand for clients or products they feel comfortable with;
iii) There is asymmetric information between clients and sellers as many ESG funds still operate as black boxes disclosing their ESG strategies in a fairly vague manner;
iv) There is currently a widespread narrative that ESG/green is the ongoing market megatrend with a potential to deliver strong financial outperformance;
v) Sustainable finance provides a good rationale for selling high-fee products as it supposedly involves additional work from asset managers;
vi) Sustainable investors appear to be less focused on fees and net returns compared to conventional investors[47];
vii) Banks and asset management firms are eager to position themselves in the fast-growing market of sustainable finance;
viii) New launches of sustainable funds or rebranding of existing funds occur at high frequency requiring inflows of fresh capital by (retail and institutional) investors.

In a first attempt to evaluate conflicts of interests in relation with sustainable finance products, researchers[48] have designed a lab experiment in which 345 professional advisors were asked to price their service of portfolio allocation for different types of clients (conventional of socially responsible). The researchers found that advisors are inclined to charge a premium to socially responsible clients that cannot be justified by higher effort, skill, or

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[46] Bergstresser, Chalmers, and Tufano (2009); Hacketal et al. (2012); Hoechle et al. (2015)
[47] Barber, Morse, & Yasuda (2021); Riedl & Smeets (2017)
[48] Laudi et al. (2021)

costs. This suggests that advisors exploit the sustainability motivations of their clients. Socially responsible clients have been found equally likely to take on the advice as are conventional clients, even if they are charged a higher fee.

Regulators, such as ESMA, have already expressed their concern that financial advisors might use knowledge about clients' sustainability motivations as an excuse to sell their own-products or more costly ones[49]. Consumer organizations share this concern with regulators[50]. The risk of undue exploitation is magnified for clients with strong ESG preferences and/or financial illiteracy.

In relation to the legal and regulatory framework, financial advisors have a duty to act honestly, fairly, and professionally in the best interest of the client.[51] This obligation to act in the client's best interest implies preventing any conflict of interests that could lead to the financial advisor influencing the client to pick certain financial products at their own benefit rather than in the best interest of the client. Several MiFID II rules aim at preventing conflict of interests[52]. The Directive notably prohibits firms remunerating or assessing the performance of staff in a way that conflicts with the clients' best interests or which incentivizes staff to sell particular products or services.[53]

Regarding conflict of interests, MiFID II Delegated Act on sustainability preference introduces the idea that conflicts of interests should not be detrimental to sustainability motivations of the client. Article 33 of Delegated Regulation (EU) 2017/565 setting out minimum criteria constituting conflict of interest is replaced: Sustainability motivations of clients are now mentioned as an interest that must be protected from conflicts of interests.[54]. Recitals of MiFID II Delegated Act on sustainability preference provide further clarifications.

Our mystery shopping visits can thus provide an interesting view on how the processing of clients' sustainability motivations creates risks of influence by financial advisors.

- **Research question #3: do financial advisors attempt to unduly influence potential clients after noting their sustainability motivations?**
    - **Research question #3a: do financial advisors present sustainable finance products in a positive, negative or neutral way?**
    - **Research question #3b: do financial advisors attempt to influence clients in abandoning or adapting their sustainability motivations and choosing non-sustainable products?**

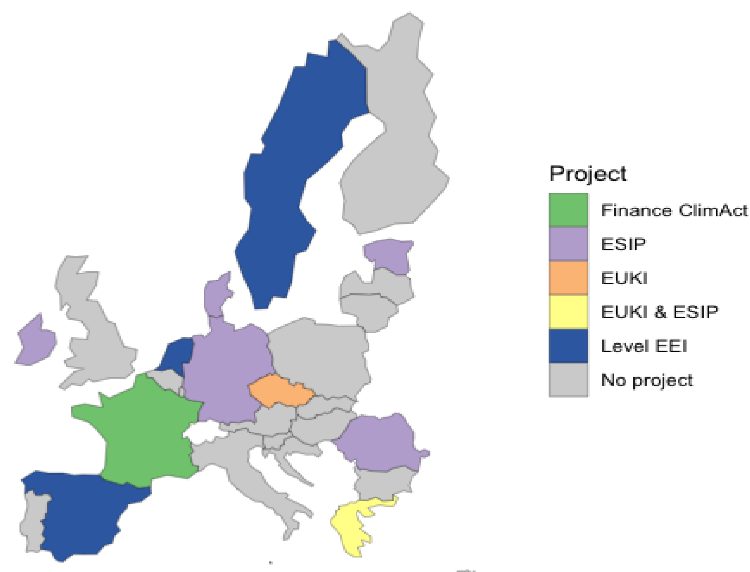
[49] See ESMA's technical advice to the European Commission on integrating sustainability risks and factors in MiFID II (ESMA35-43-1737, 30 April 2019)
[50] See Points 24 on p.14 and Point 27 on pp.14/15 in the ESMA report (ESMA35-43-1737, 30 April 2019)
[51] Article 24 (1) Directive 2014/65/EU
[52] See article 27 and 33 of Delegated Regulation (EU)2017/565
[53] Article 24 (10) Directive 2014/65/EU "An investment firm which provides investment services to clients shall ensure that it does not remunerate or assess the performance of its staff in a way that conflicts with its duty to act in the best interests of its clients. In particular, it shall not make any arrangement by way of remuneration, sales targets or otherwise that could provide an incentive to its staff to recommend a particular financial instrument to a retail client when the investment firm could offer a different financial instrument which would better meet that client's needs."
[54] Amended article 33 of Delegated Regulation (EU) 2017/565

# Part IV – The 2021 mystery shopping campaign

## Scope and methodology of the 2021 campaign

2DII is currently running a series of over 900 mystery shopping visits in 11 countries across Europe over the period 2021-2024.[55] These countries were selected based on their regional distribution and different market structures, sizes, and maturities. Two campaigns took place in 2021, one in France and one focusing on a group of six countries in Western, Nordic and Eastern Europe: Denmark, Estonia, Ireland, Germany, Greece and Romania. Next year, we will repeat the campaign in those countries after the new MiFID II regulation will apply and add Czech Republic, Netherlands, Spain and Sweden.[56] We cooperate with regulators such as the French Autorité des Marches financiers (AMF) and specialized external service providers. The results will be directly reported to relevant European bodies such as ESMA and DG Fisma and shared with the industry and academia.

***Figure 1: geographical coverage of our mystery shopping campaigns 2021-2024***




The 2021 multinational campaign included a total of 210 mystery visits implemented in November and December 2021 by an international agency, Bare International. Beside this European campaign, we ran another campaign in France as part of the Finance ClimAct project. In total, 90 visits were completed in France and 210 for the six countries as part of the ESIP project. A detailed presentation of the methodology of the campaign is provided in the appendix.

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[55] Our European wide mystery shopping campaign with focus on sustainable finance is one of the largest existing research projects in the field. This research project is supported by different European research programs from EIT Climate KIC (Elicit Sustainability Investment Preferences (ESIP), Life IP (Finance ClimAct), Horizon 2020 (LEVEL EEI) and the German Federal Environment Ministry (Sustainable finance and consumer protection in Geece and Czechia (EUKI).

[56] We cooperate with regulators such as the French Autorité des Marches financiers (AMF) and specialized external service providers. The results will be directly reported to relevant European bodies such as ESMA and DG Fisma and shared with the industry and academia.

# Implementation of the 2021 campaign

The COVID situation made field visits more difficult, with mystery visitors having to respect sanitary measures or being unable to attend a banking appointment due to sickness, reduced number of staff receiving public, longer delays obtaining an appointment, etc. For some meetings, social distance requirements forced them to have meetings offsite by phone or videoconference.

Visits were expected to be equally split across countries, but due to unequal COVID situations which translated in some areas into difficulties to have a bank meeting within a respectable timeframe, we adapted the quotas (see table below).

***Table 1: geographic breakdown of mystery shopping visits***

| Country | Number of visits | Number of mystery shoppers |
|---|---|---|
| Denmark | 35 | 5 |
| Estonia | 20 | 8 |
| Germany | 40 | 10 |
| Greece | 40 | 9 |
| Ireland | 35 | 14 |
| Romania | 40 | 7 |
| EU-6 | 210 | 53 |
| France | 90 | 6 |

We draw the reader's attention to several limitations of the 2021 campaign that may have impacted our findings:

- A geographic concentration in large cities;
- A lack of variety in mystery shopper profiles (in terms of age, education or ethnicity) in relation to the small number of visits planned in each country;
- A significant proportion of visits that could not take place on site due to COVID-related restrictions.

Those shortages leave some important research questions out of the scope of this study. We could not question whether potential clients get different treatments and advice in rural areas compared to urban ones or if some social groups (based on stereotypes about age, gender, education or ethnicity) were assessed and advised differently. We chose not to ask mystery shoppers to provide their feedback on those issues.

# Part V – Results of the 2021 campaign

## The consideration of the potential client's sustainability motivations

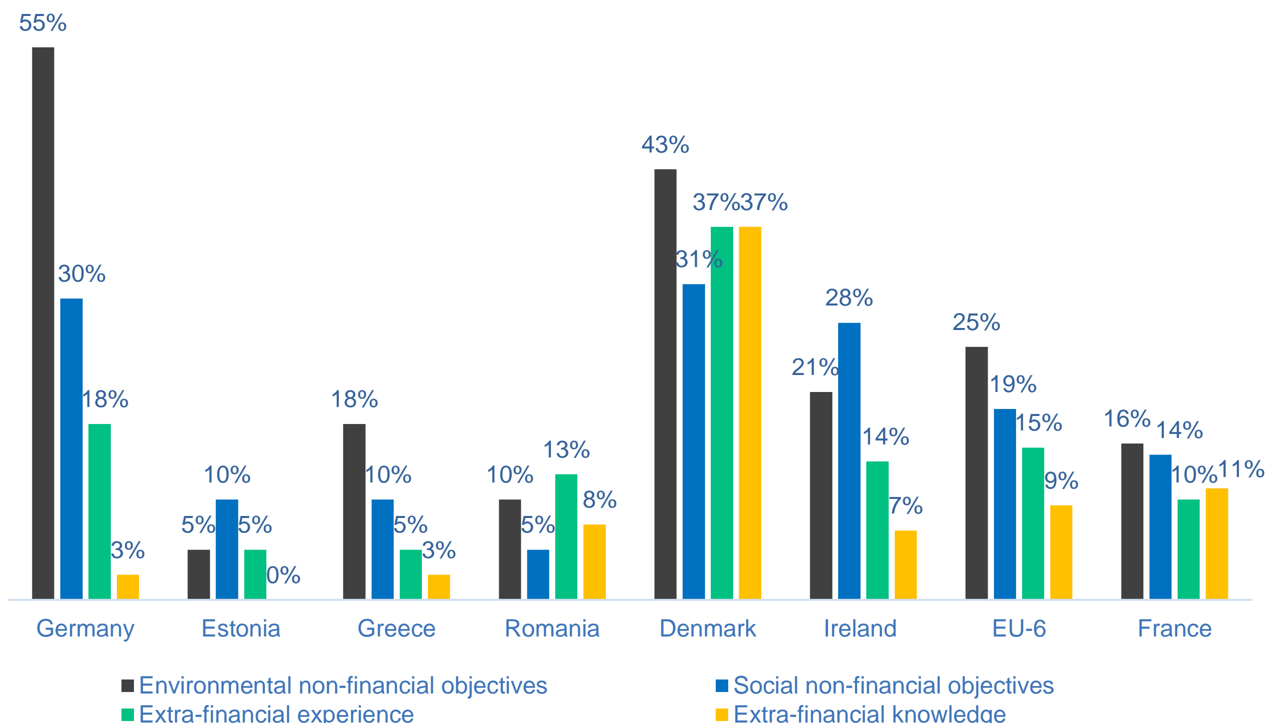
- **Research question #1a: do financial advisors assess potential clients' sustainability motivations proactively?**

First, the 2021 mystery shopping campaign shows with no ambiguity that it is still far from being systematic for financial advisors to proactively ask potential clients about their sustainability motivations, knowledge or experience.

At European level, non-financial objectives, experience with sustainable products or knowledge about those products are still rarely assessed. However, important disparities amongst countries still exist. It was found that financial advisors in Denmark and Germany fare better than their equivalents in other countries, especially regarding the assessment of ESG objectives.

Our mystery shopping visits also revealed that only 5% of financial, almost exclusively coming from Danish banks, systematically assessed the whole sustainability profile (including environmental and social objectives, extra-financial experience and knowledge) of their client.

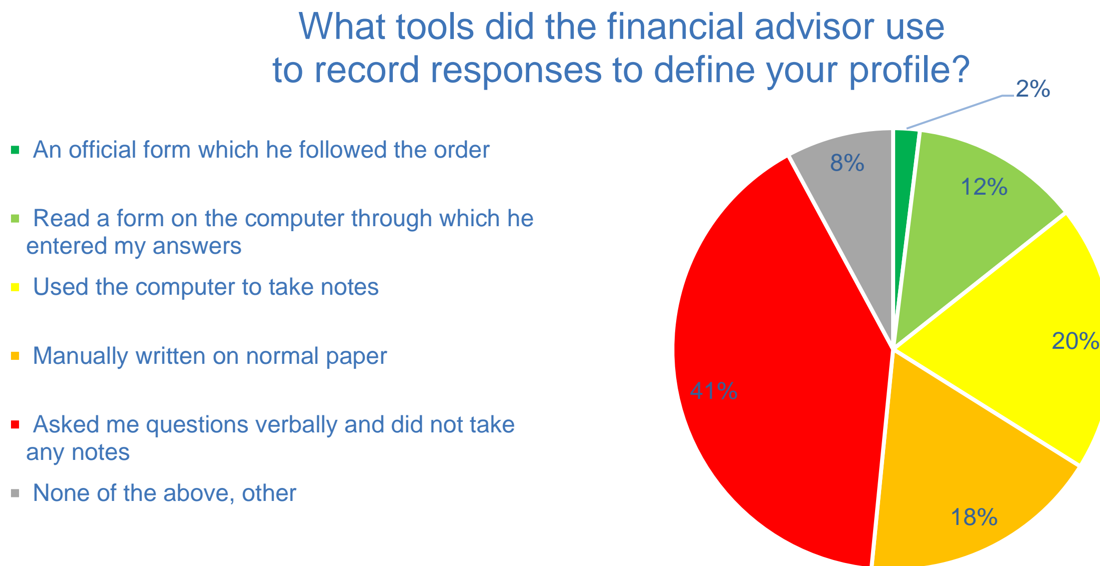
**Figure 2: dimensions of the suitability assessment**




*Reading: EU-6 represents the average of the six countries surveyed*

The assessment of the potential client's profile (regarding sustainability and other features) is still largely made informally with nearly 50% of advisors not keeping record of the information gathered.

**Figure 3: tools used for the suitability assessment (EU-6)**




It is important to note that in many contexts the shoppers were told that the advisor could not assess their profile before they open an account. Consequently, the quality of the advisor's recommendations could have been strongly affected by such an internal policy. In some other cases, it was unclear whether it was due to internal policy or to a discretionary protocol implemented by the advisor.

> *"The advisor doesn't make a product offer until the client has registered in the system as an investor. However, there is a demo version of an investor portfolio available for a short time."* (Estonia)
>
> *"Products can be selected after registering an account. Manager could not provide exact product names, but generally covered where they can be found."* (Estonia)
>
> *"My experience was not so positive because the staff of the Deutsche Bank are not cooperative with potential new clients or their needs."* (Germany)
>
> *"The advisor was not inclined to give me advice as long as he was not sure that I would open an account. Thus he stayed pretty vague in his answers to my questions."* (France)
>
> *"The advisor told me that it was not possible to run the suitability questionnaire without even opening a life insurance contract."* (France)

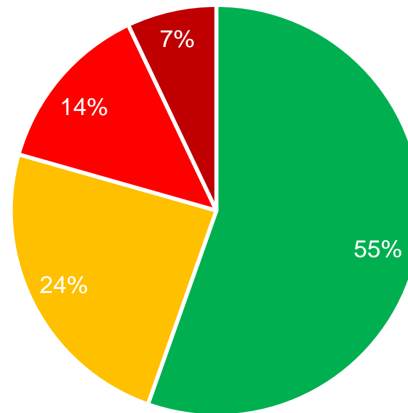
- **Research question #1b: do financial advisors consider potential clients' expressed sustainability motivations when they make product recommendations?**

During the interview, some of the characters were required to ask questions about sustainable products in order to suggest their interest and preferences for investing sustainably. In only 55% of cases, the advisor got the message clearly and reacted by proposing a sustainable product. The rest of advisors waited for multiple signals to propose adequate products or, even worse, did not end up in proposing adequate products willingly or unwillingly.

**Figure 4: Advisors' reactions to clients' questioning about sustainable products (EU-6)**

After you asked questions about sustainable products, how did the advisor react?

- He spontaneously offered you a sustainable product as soon as he sensed your interest in this subject.
- He needed several reminders on the subject in order to take your wishes into account.
- It seemed to you that he did not understand your wishes despite your reminders.
- It seemed to you that he fully understood your wishes for sustainable investments, but he directed you to an unsuitable product.

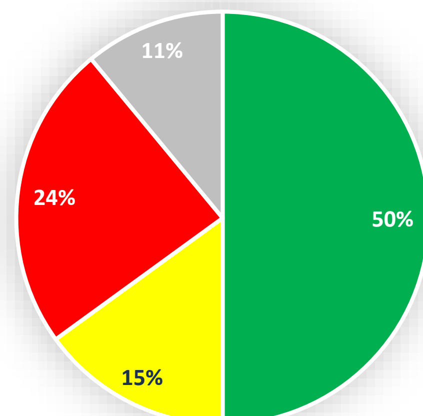



After mentioning their sustainability motivations repeatedly, the mystery shoppers interested in sustainability were only proposed products that were sustainable beyond any doubt in 50% of cases (see figure XXX). Other shoppers were proposed products with dubious sustainability features (15%), products that were clearly inadequate (13%) or no product at all (11%).

**Figure 5: advisors' reactions to clients' repeated expression of a preference for sustainable products (EU-6)**

After you expressed your preferences, did the advisor propose you adequate sustainable products?

- Yes, and the recommendations were satisfying
- Yes, but recommendations did not convince you
- No, he presented products unrelated to your request
- Others (e.g., you don't know as the product description was unclear)



Open responses by mystery shoppers in the assessment questionnaire confirm the view that recommendations in response to displaying a clear appetite for sustainable products were not always relevant:

> *"The Premium Banking Officer showed me products that fulfilled my financial objectives (not lose money, secure savings) but not products that fulfilled green, social, non-financial goals."* (Greece)

> "*He knew a lot about investments in general. However, I was clear about my interest in green investments, but he was not interested in the topic. He offered something totally different.*" (Greece)

> "*The advisor didn't listen to my needs. I was recommended the best product in her opinion.*" (Romania)

Some recommendations appeared inconsistent not because the financial advisors ignored the potential client's sustainability motivations but because they were not suitable for the client's risk profile. This could have occurred because the offer of sustainable products was too limited to accommodate all risk profiles or because the advisor's attention was restricted to the only sustainability dimension of products after noting the strong sustainability motivations of the prospect. Yet, it is clear in upcoming MiFID II rules on integrating sustainability preferences in the suitability assessment that considering sustainability preferences should not come at the cost of other investment objectives such as risk tolerance[57].

> *"Even if it is risk 7, the advisor recommended it strongly."* (Romania, risk-averse profile)

> *"The advisor insisted a lot on the fund XXX Sustainable Stocks and neglected my preference for low-risk products."* (France)

Another regular problem was that advisors did not speak the right language to the sustainability-motivated mystery shoppers when articulating recommendations. They often focused on financial performance and neglected sustainability considerations

> *"She spontaneously evoked the financial characteristics of SRI products proposed by the bank. She talked about the financial performance of the products over the last years much more than about their non-financial features."* (France)

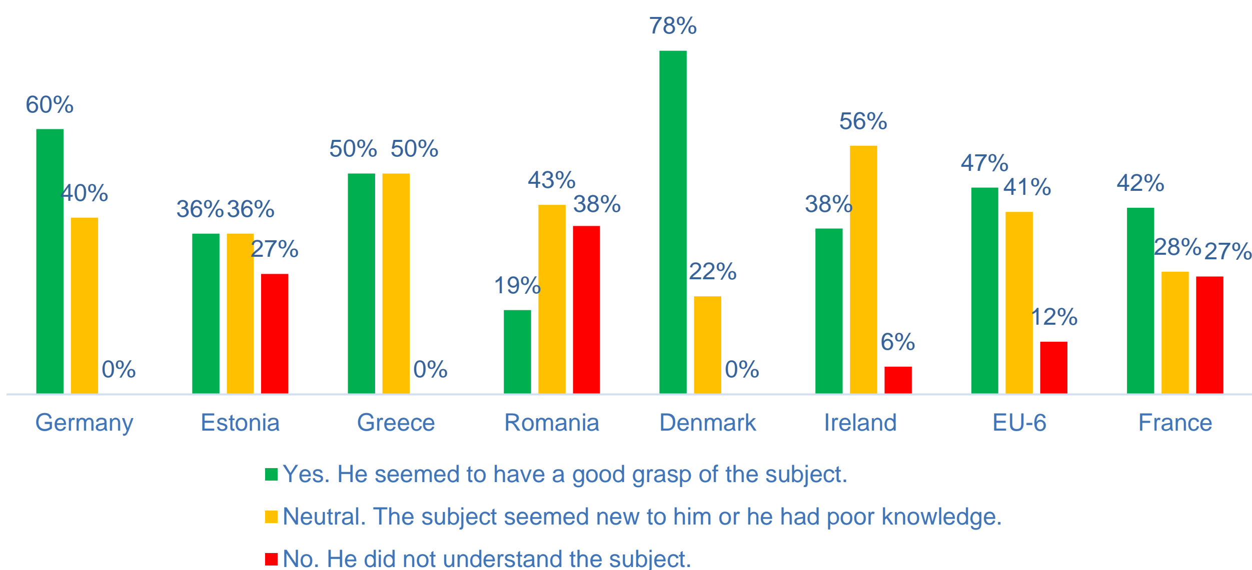
[57] Amended article 54 (12), first subparagraph of Delegated Regulation (EU) 2017/565 : "When providing investment advice, investment firms shall provide a report to the retail client that includes an outline of the advice given and that explains how the recommendation provided is suitable for the retail client, **including how the recommendation meets the client's investment objectives, his or her personal circumstances with reference to the investment term required, the client's knowledge and experience, the client's attitude to risk his or her capacity to sustain losses and his or her sustainability preferences**."

# The financial advisor's knowledge about sustainability issues

## Knowledge about sustainable products

- **Research question #2a: do financial advisors have a good understanding and mastery of sustainable finance concepts to feed a fruitful discussion with clients?**

**Figure 6: perception of advisors' knowledge about ESG issues**




Except in Denmark and Germany, only a minority of advisors appeared to mystery shoppers to be knowledgeable about sustainable finance concepts and notions.

> *"The advisor didn't have the full grasp of what ESG even was."* (Estonia)

With regard to the knowledge of green financial products, the situation is significantly better. In all countries but Romania, most advisors display a decent knowledge of green financial products in general or of specific green products proposed by their banks. A vast majority of advisors met in Denmark and Germany appeared to have some knowledge of them.

> *"The advisor was particularly handling green investment. I gained so much knowledge about different products and it was so educational."* (Denmark)

> *"The advisor had very clear idea about green and impactful products."* (Denmark)

> *"This meeting was a little different from the sales pitches I have heard before. The advisor took a lot of time to explain the sustainability part of the products, concepts associated with it."* (Denmark)

> *"It was a great experience in terms of value addition to my knowledge about green investment. The advisor was very knowledgeable and passionate to explain things in simple words rather than jargons."* (Denmark)

*"The advisor was kind and fully informed, however, regarding 100% green and impactful products, the advisor advised that no product is 100% clean."* (Denmark)

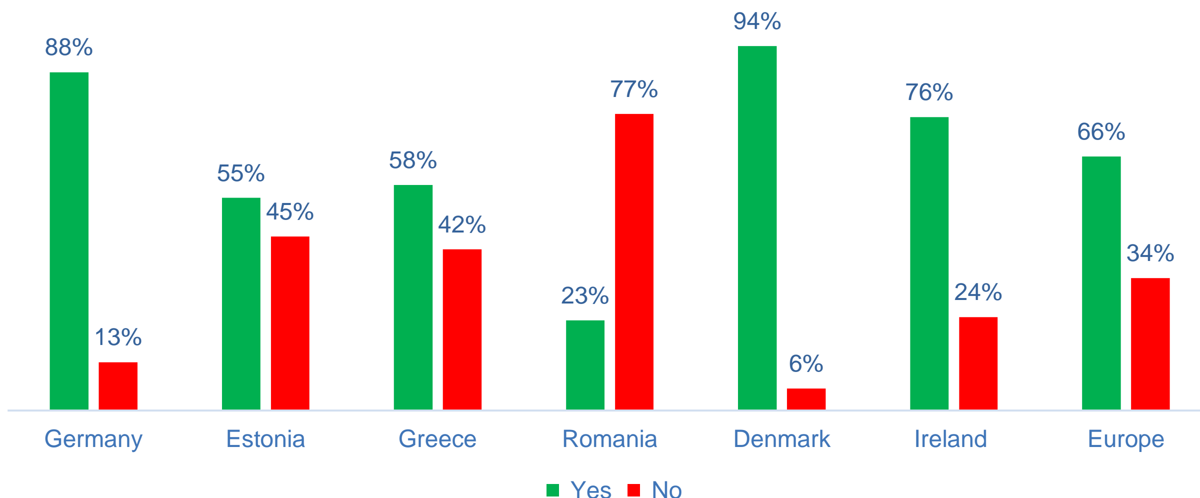
*"The advisor was very experienced and had a good knowledge about sustainable products. Nothing was new for him. The products offered have existed for a long time. He seemed very trustworthy."* (Germany)

*"The advisor was competent and was very well informed about sustainable investments. He informed me about the risky side effects of the investment. He offered me to invest in Green Funds."* (Germany)

*"Good and experienced staff with knowledge of market trends. Sustainable products and investments are something strange for local population, though things are changing."* (Greece)

*"The experience was excellent, the advisor was knowledgeable, professional, and clued-in on green issues, the bank really seemed to be offering investments in line with green objectives."* (Ireland)

**Figure 7: perception of advisors' knowledge about green financial products**




Still, the situation was far from being uniformly satisfying. Many shoppers reported a clear lack of knowledge of advisors regarding sustainable or green financial products.

*"I wasn't satisfied because the advisor had no knowledge. I asked about ESG products and was told: 'there is one (fund XXX) but it's strange to know it, since it's a new trend on the market."* (Greece)

*"The advisor was well-informed about the different kind of financial products. When I went a little deeper into the topic my questions were avoided with an honest answer that they didn't know about it."* (Denmark)

*"They have financial products with ESG but were not able to elaborate on the details."* (Germany)

*"It was that kind of a meeting during which the advisor learns about product while presenting them!" (France)*

In several occasions, the lack of knowledge was made obvious due to an excess reliance on product factsheets or brochures.

*"The advisor was very focused on the brochure and didn't really allow for questions."* (Ireland)

*"This manager had a high level of proficiency, knew lots about the products. She had a good understanding of the market, but when we got into details about green products, she showed me the webpage."* (Romania)

In the same vein, some advisors tried to back their proposals and hide their lack of deep knowledge by relying on vague arguments about the expertise or culture of their bank or by superficially referring to external sustainability labels.

*"Extra-financial considerations are one of the core pillars of the identity of the bank"* (France)

*"The bank was awarded for its activity in green lending"* (France)

*"The advisor strongly insisted on the fact that the label ISR was very demanding and difficult to get for funds even if she did not know what the label was really about. She read on her screen that it was only about doing better regarding ESG than their peers and found it out through reading it"* (France)

*"It is a European label (sic), which means companies behave in a good manner"* (France)

## Knowledge about impact

- **Research question #2b: specifically, do financial advisors understand the concept of investor impact and respond to impact-motivated investors adequately?**

In the most general terms, impact is the causal and additional outcome to the world in comparison with a counterfactual baseline scenario. When applied to companies, impact becomes company impact and is the additional outcome to the world caused by the company compared to a counterfactual (and hypothetical) scenario when the company would not exist. Similarly, investor impact is the additional outcome to the world compared caused by the investor compared to a counterfactual scenario when the investor (or funder in the case of financial institutions providing loans) would not exist[58].

Investor impact thus corresponds to the change(s) induced through using different financial products in the impact of invested companies. Investor impact and invested companies' impact should always be segregated as being two different concepts not fully correlated across each other. An investor might indeed have no impact through investing (directly or indirectly) in positive impact companies. It occurs, for instance, when the investor takes over (directly or indirectly) another investor's stake in a company without affecting the companies' activities.

Financial advisors should be aware of that distinction and not answer to questions about investor impact by giving evidence in favor of invested companies' impact.

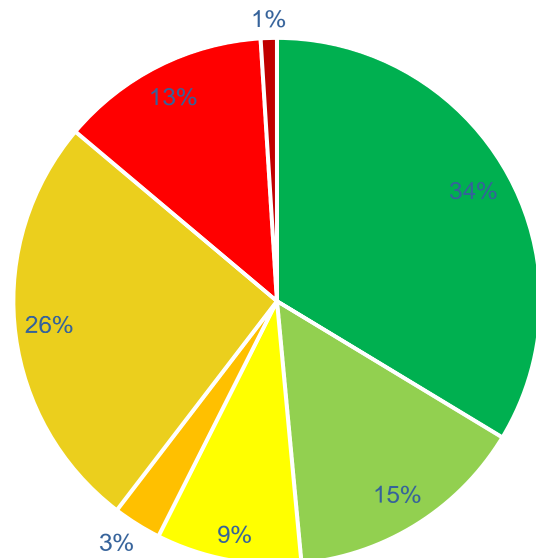
In our study, when profiles 1, 3 and 5 repeated the word impact several times and reaffirmed that they were looking for a product with "impact in life / the real economy", the responses of financial advisors proved that the concept of investor impact is not understood by many advisors as it is confused with company impact (26%) or, worse, with financial performance (1%). Oppositely, 15% were capable of making the distinction between company impact and investor impact.

[58] If we apply the analysis at product level, product impact is the additional outcome to the world caused by the creation and the current use of the financial product compared to a counterfactual scenario when the product would not exist or not be used by investors.

**Figure 8: advisors' responses to clients' goals for impact (EU-6)**

Financial advisors' responses to investors willing to invest with impact

- He looked for a product that could meet your expectations
- He admitted he could only proposed products invested in positive impact companies without ensuring they would deliver positive investor impact
- He heard your request but did not know of any products that could match it
- He told you it did not exist
- He showed you figures about a fund to prove the invested companies have a better impact than in a conventional product
- He mistakenly responded by talking about financial "impact"
- He ignored your request in his recommendations




To prove the proposed funds' impact, advisors relied on a battery of arguments or examples that failed to grasp the complexity of the notion. Only a handful of them (3%) admitted that they were unable to prove the positive impact of the proposed sustainable funds.

> "*The advisor showed me graphs and praised the well-known companies involved but there was no clear or detailed information regarding impact, etc.*" (Greece)

> *"If it had no impact, the asset management firm would not do it. In other words, trust us."* (France)

> *"The advisor experienced difficulty in explaining how the product has a positive impact on environment protection: he struggled to explain how carbon offsetting worked even if he was recommending a fund based on it."* (France)

The most competent ones were able to articulate a sort of theory of change but in an incomplete and expedite manner.

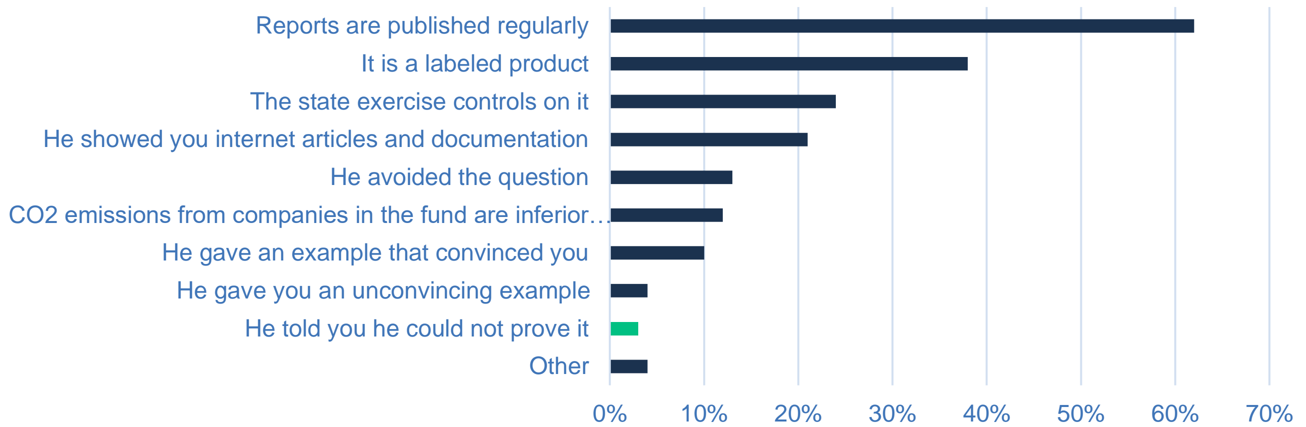
> *"By investing in companies that try to become greener, you have impact since you incentivize them to do better. Without such investments, companies would not care about the environment."* (France)

Some suggested that it was impossible for financial products to generate a clear positive impact, forcing the client to make a tradeoff between financial performance and impact.

> *"The advisor admitted he was clueless addressing my request to invest in products with a positive impact for the environment and confessed he was unable to disclose full transparency. He was basically saying that between the economy and the environment, I had to choose."* (France)

**Figure 9: advisors' arguments to prove product impact (EU-6)**

Arguments used by advisors
to prove a fund's impact




In general, arguments used revolve around the investments of the funds in positive impact companies. But, as said before, investor impact should not be confused with investees' impact. And, so far, sustainability reporting obligations for funds as well as labels (whether green or ESG-focused) do not tackle investor impact. So, documents and labels should not be used by financial advisors as evidence contributing to prove product impact (i.e., investor impact through the use of the product).

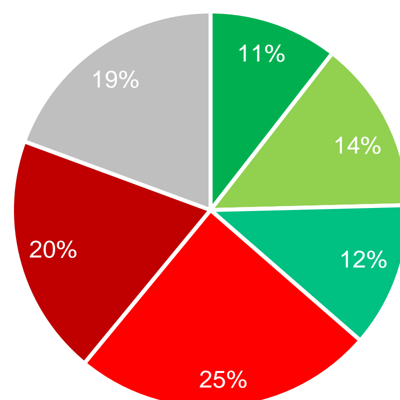
## Absence of knowledge

- **Research question #2c: in case of insufficient knowledge about sustainable finance concepts, how do financial advisors react?**

**Figure 10: advisors' reaction when confronted with insufficient knowledge (EU-6)**

If the advisor did not seem to have any knowledge
of "green" products, what was his next step?

- He offered you a new appointment with a specialist.
- He did some research on the internet about it.
- He asked another person in the bank for information about it.
- He invited you to do your own research on this subject.
- He did not do anything.
- None of the above, other



When advisors could not handle the mystery shoppers' questions about sustainability, they reacted in different ways. Some did not try to provide professional advice and recommended that the client do his/her own research on the internet while others tried to find appropriate answers using web documentation (14%) or internal human resources during the appointment (12%) or after the appointment (11%). In some cases, the internal specialist the client was transferred to was of little help. Fortunately, in other cases, the internal specialist displayed valuable skills and could answer the client's questions.

> *"The meeting was fine, but I had to read internet articles to get answers to my questions."* (Denmark)

> *"The Customer service representative asked if she may forward my call to the Specialist of the Deposit department and did so. The Specialist of the Deposit department couldn't answer my questions."* (Estonia)

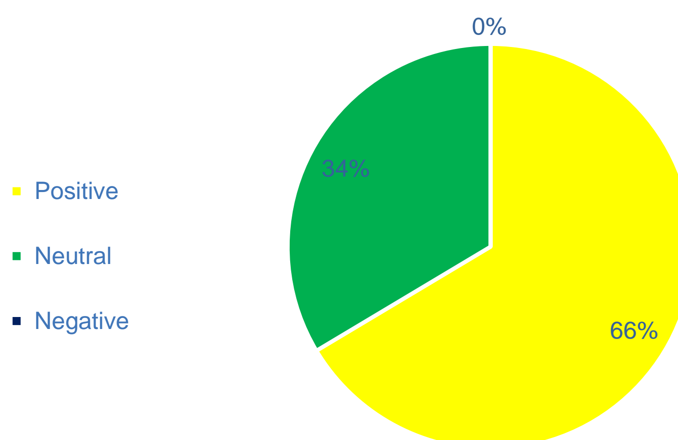
> *"The advisor was a very good listener. When he could not answer my questions, he called someone from the specialized asset management department. The person made a very good impression on me."* (France)

# The neutrality of product recommendations

- **Research question #3a: do financial advisors present sustainable finance products in a positive, negative or neutral way?**

When advisors notice a potential client's desire to invest in sustainable financial products and can respond to that desire with (apparently) adequate products, they tend to present those products in a positive light (66%) or neutral (34%). We did not find any advisor that tried to discourage the client from investing into the product.

**Figure 11: advisors' presentation of sustainable products (EU-6)**




A very common argument used to comfort the client in his/her will to invest in sustainable products was that those were becoming very popular, representing a new megatrend. For some advisors, such a megatrend was

the recipe for future outperformance or even a must-have to protect one's capital. Past outperformance was also mentioned as another proof in favor of the relevance of such strategies[59].

*"Eco companies are now the future for success."* (Germany)

*"Green investment isn't a trend anymore, it is future."* (Germany)

*"She said that this way of investing money would be extremely popular, you would have to have it to survive in today's world."* (Germany)

*"I was told green investment is the new trend. The investment has been good the last couple of years."* (Denmark)

*"She explained that the future is green and sustainable and the bank chooses only sustainable companies for their funds."* (Estonia)

*"The advisor said that this (green) investment wasn't a fad and has high potential."* (Germany)

*"She told me that these products which invest in green companies, had a very good return rate and were very popular among customers."* (Romania)

In rare occasions, advisors recommended to choose other products from the range of offer because of strong past performance.

*"The advisor told me he would personally choose the XXX Global Equity fund that doubled in value in the last five years."* (France)

- **Research question #3b: do financial advisors attempt to influence clients in abandoning or adapting their sustainability motivations and choosing non-sustainable products?**

According to shoppers, a fairly common practice for advisors was to propose conventional financial products with which the advisors were probably more familiar and comfortable, despite they did not match the motivations expressed by the mystery shoppers. Some advisors were like in a "default mode", neglecting to adapt their advice to the distinct profile of the potential clients they faced. The absence of sustainable products in the range of offer or the advisor's lack of knowledge in green or sustainable products seemed to participate to those non-suitable recommendations.

*"The officer did not have much knowledge of green products. He was mostly interested to sell certain financial products of his choice."* (Greece)

*"The advisor perfectly understood my request and my personal objectives. Nevertheless, he focused on trying to convince me that the best solution for me was to opt for a life insurance contract since we had children and that my wife and I had completed the reimbursement of our mortgage loan. Even if he understood my goal, he still thought it was not the right thing to do for me."* (France)

*"The advisor tried to make me understand that investing green was not a good idea even if he seemed to be very knowledgeable about it. He was focused on having me invest in conventional products despite my frequent attempts to orientate him to green solutions."* (France)

Very rarely, advisors vividly argued against green investing, using general and undocumented statements.

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[59] On this point, we should remind that MiFID II indicates specific precautions to be taken when informing on past performance (see article 44 (4) of Delegated Regulation (EU) 2017/565).

*"Green investing is a global hypocrisy since companies like Total and BP are in green portfolios!"* (France)

More often, advisors recommended not to fully invest green and diversify with conventional products, for risk management purpose. If such recommendations are reasonable when green investing is made through sectoral thematic funds, it does not apply to sector-diversified low-carbon (or ESG) strategies.

*"The advisor recommended to diversify and not invest only in green."* (France)

*"The advisor made three or four attempts to have me invest a portion of my capital in sustainable funds and the most of it on higher-return funds or risk-free life insurance despite I did not express that will."* (France)

# Summary of good and bad practices

The observation of a large variety of behaviors from financial advisors across Europe enables us to provide a summary of good and bad practices observed with regard to the three dimensions explored in this mystery shopping campaign. They are gathered in Table 2.

**Table 2: summary of good and bad advisor practices**

| | Good practices | Bad practices |
|---|---|---|
| Consideration of client's sustainability motivations | Initiate the assessment of sustainability motivations BEFORE the client expresses sustainability concerns or goals | Wait for the client to express sustainability motivations or concerns for initiating the assessment of his/her sustainability motivations |
| | Include in the suitability assessment of sustainability motivations questions about the sustainability goals of the client | Neglect to ask questions about the sustainability goals |
| | Align the product recommendation to the assessed/expressed sustainability motivations | Ignore the assessed/expressed sustainability motivations of the client |
| | Include both risk and sustainability assessments in the product recommendations | Ignore the client's risk profile to accommodate his/her sustainability motivations |
| Financial advisor's knowledge of sustainability issues and sustainable products | Have precise knowledge of sustainability concepts | Have shallow knowledge of sustainability concepts |
| | In case of insufficient knowledge, connect the client to a knowledgeable colleague | In case of insufficient knowledge, connect the client to a non-knowledgeable colleague or leave the client's legitimate questions unanswered |
| | Answer the client's sustainability questions with precise explanations | Answer the client's sustainability questions with fuzzy explanations (e.g., "sustainability is the bank's DNA") |
| | Answer the client's questions about the impact of financial products using appropriate arguments | Answer the client's questions about the impact of financial products using inappropriate arguments (i.e., relative to the impact of invested companies) |
| | Send detailed answers to the client's unanswered questions about products after the meeting | Leave the client to make his own research on the bank's products after the meeting |
| Influencing the client's decision | Stay neutral in the presentation of suitable products | Be overly positive or negative regarding suitable products based on personal beliefs |
| | Use rational, science-based arguments to back product or asset allocation recommendations | Use shallow arguments to comfort the client in its will to invest in sustainable products (e.g., "everybody is doing it") |
| | Acknowledge when the client's motivations cannot be matched by any of the available products | Use undue arguments to influence the client's choice towards available products |

# Part VI – General discussion

The 2021 mystery shopping campaign draws a valuable picture of financial advisors' attitudes regarding potential clients' sustainability motivations, a few months ahead of the application of MiFID II Delegated Act on sustainability preferences.

This picture reveals that too many financial advisors still do not comply with their upcoming duties, with large variations across countries (with Denmark and Germany leading the ranks) and across individuals. For European retail consumers, it means that they get financial service with varying degrees of professionalism and quality.

Most of the variations seem to be related to two core problems: the lack of knowledge of many advisors and the incompleteness of the offer of sustainable products in many bank networks to suit all profiles of clients.

Because the upcoming application of MiFID II Delegated Act on sustainability preferences will not mechanically solve those two problems, **we propose a series of seven recommendations that target European and national regulators and supervisors.**

## Improving the elicitation of clients' sustainability motivations

Results of our mystery shopping visits demonstrate that **many financial advisors fail to address sustainability motivations of clients, proactively or reactively.**

Even if MiFID II Delegated Act on sustainability preferences will oblige financial advisors to proactively consider sustainability preferences of clients, **a question remains: will financial advisors be able to implement this obligation properly?** Indeed, we see several key issues in MiFID II Delegated Act on sustainability preferences that may prevent the proper assessment of sustainability preferences and wider sustainability motivations of clients.

**First, the definition of sustainability preferences (see infobox in section 2) of retail clients is unclear and may result in heterogeneous practices in the way financial advisors will enquire about sustainability preferences.** Financial institutions will have to translate the technical definitions into clear and simple questions adapted to the low level of knowledge of retail clients in sustainable finance. This task may result in diverging practices considering current discussions on interpretation of the definitions, especially for product categories B[60] and C[61]. Moreover, according to the definition of sustainability preferences in MiFID II Delegated Act on sustainability preferences, retails clients will have to define proportions of alignment with Taxonomy Regulation or SFDR and define quantitative and qualitative elements of principal adverse impacts on sustainability factors. Due to the difficulty for retail clients to understand and formulate this type of expectations, it is most probable that financial institutions will put forward pre-defined thresholds to ease the choice of the client. Here again, there will be room for heterogenous calculation and expression of these thresholds.

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[60] Category B refers to the concept of "sustainable investments" as defined in Article 2 point (17) of SFDR[60] and not directly to any SFDR category of product (article 6, 8 or 9). Hence, a preference for a "category B product" is not defined as a simple preference for the different product categories established in the SFDR. Rather, different types of financial product categories established in the SFDR may match sustainability preferences if they satisfy the criteria in the definition of sustainability preferences. It means that financial institutions will not be able to use the classification established under SFDR to rank their products under the different MiFID II categories of sustainability preferences without further analysis.

[61] Questions are raised regarding the extent of category C and more precisely whether it is limited to adverse sustainability indicators contained in the Draft SFDR Regulatory Technical Standards.

**The difficulties to understand the definition of sustainability preferences set in MiFID II Delegated Act are likely to prevent the implementation of a clear, simple and harmonized way of enquiring sustainability preferences of retail clients.**

**Secondly, in addition to its lack of clarity, the definition of sustainability preferences fails to cover wider sustainability motivations of retail client who want to invest sustainably.** Indeed, the definition of sustainability preferences does not capture all the granular aspects on how some retail clients want to invest their money.

For some clients, investing in a financial instrument which falls under Category A, B or C may not satisfy wider sustainability motivations such as having the goal to have an impact on climate change with an investment. Conversely, there are financial instruments which would satisfy the sustainability goals of a client but would not ordinarily fall under categories A, B or C.

Indeed, according to academic literature and industry research, there are two overarching sustainability goals for retail investors: having one's savings aligned with one's values (i.e., ethical, religious, political…)[62] and having it deliver a real positive impact on the society or the environment[63]. Those two sustainability goals add to the financial objective (i.e., maximizing return under constraints). The **MiFID II preferences are built around the concepts of greenness and sustainability while investor sustainability goals are about values and impact, leading to many potential mismatches and significant risk of misselling**.

## INFOBOX: SUSTAINABILITY GOALS ACROSS EUROPE

**In Q4 2021, 2DII ran a survey in six European countries (Denmark, Estonia, Germany, Greece, Ireland and Romania) about households' believes and goals regarding sustainable finance[64].**

**Regarding goals, the survey revealed that across the six countries:**

**- 60% of retail investors have mixed financial /sustainability objectives, paying attention to maximizing financial returns but also to the alignment of savings with personal values and/or the real impact on the society or the environment.**

**- The most represented investor profile is the one that mixes the three objectives: 28% of European retail investors want to have it all.**

**- In all countries, the ranking of individual financial/sustainability goals is the same: "maximizing return" then "aligning with one's values" and finally "having impact".**

**- Even if it comes third, having impact is still important for a significant fraction of people (46% on average)**

**- The sustainability topics people want to be reflected in their savings (for impact or value-alignment purposes) are most frequently environmental or social topics compared to ethical topics.**

This is most clearly illustrated in the case of impact-oriented financial instruments i.e. those which have an objective of delivering additional positive environmental or social outcomes alongside a financial return. An

[62] See Riedl and Smeets (2017) and Bauer et al. (2021). In its the Global Investor Survey, Schroder (2021) obtains that 38% of investors worldwide consider sustainable funds to be attractive because they align with their personal societal principles.
[63] See Humphrey et al. (2020), Heeb et al. (2021) and Barber et al. (2021).
[64] 2DII (2022)

impact-oriented financial instrument does not fall under Category A, B or C. but is the most suitable for impact-motivated clients.

Our concern is that, although clients will have differing levels of financial literacy and knowledge and engagement with sustainability considerations, we think there is a risk that solely focusing on the regulatory definition of sustainability preferences is very limiting and may not cover all client sustainability goals (impact, value alignment or/and financial performance through ESG) for their investments and wider sustainability motivations (sustainability features beyond those mentioned in MiFID II covering impact objectives or specific exclusions). **In more practical terms, by only raising questions strictly related to the definition of sustainability preferences of MiFID II Delegated Act, financial advisors will not be able to capture real goals of retail clients for investing sustainably and increase the risk of misselling.**

> **Recommendation #1: Include wider sustainability motivations in the mandatory assessment of sustainability preferences (i.e., sustainability goals (having an impact, value alignment or/and improvement of financial performance through ESG) as well as sustainability features beyond those mentioned in MiFID II).** It is our view that the elicitation of sustainability preferences should include wider sustainability motivations than only those defined in MiFID II Delegated Act on sustainability preferences, such as the assessment of clients' sustainability goals and their preferences for specific causes (promotion of certain SDGs, wish to exclude specific sectors…).. 2DII encourages the European regulator to indicate in updated guidelines accompanying the application of MiFID II Delegated Act on sustainability preferences that additional and more granular elements of the client sustainability motivations should be considered in addition to the categories of preferences defined in MiFID II Delegated Act on sustainability preferences. Information on goals of clients is specifically important to identify impact-oriented client.
>
> **Recommendation #2: Create impact categories in the legislation (SFDR and MiFID II).** 2DII continues to recommend the introduction of an additional category in the European legislation[65] (SFDR and MiFID II) for products that specifically target a positive investor impact on the society or the environment and for investors displaying such a goal. We are currently working on a template of questionnaire on sustainability preferences and motivations along with a guidance document which will contain questions aiming at a comprehensive assessment of clients' sustainability motivations that would include the goal to have impact.

## Fixing the advisors' knowledge gap

The results of our mystery shopping campaign demonstrate a lack of competence of a significant fraction of financial advisors regarding sustainable finance products. This is a concern considering the key role of financial advisors in accompanying retail clients in the investment process.

As stated before, financial advisors are expected by MiFID II legislation to have sufficient knowledge and competence to issue product recommendations. This provision is completed by ESMA Guidelines for the assessment of knowledge and competence.

**The application of MiFID II Delegated Act on sustainability preferences will force financial advisors to acquire competence to provide recommendations in relation to categories of sustainability preferences and wider sustainability motivations.** It implies financial advisors will need to have a comprehensive knowledge on sustainable finance such as understanding different sustainability strategies (exclusion, best-in-class, ESG integration…) and how they relate to potential investors' sustainability goals (positive impact, value

[65] Please see our article "Does the SFDR help the impact-focused retail investor?". On the creation of an impact category, It is also interesting to read the FCA consultation on Discussion Paper 21/04 on new sustainability disclosures and sustainable investment labels

alignment, financial performance…)[66], and finally, be able to translate this knowledge in simple and clear explanations for retail clients.

**It will be necessary to ensure that financial advisors have a solid and wide enough knowledge of sustainable finance to properly inform retail clients, carry out a comprehensive suitability assessment and make adequate recommendations.**

Moreover, it appears necessary to educate a significant part of financial advisors on the concept of impact to properly handle clients who want to have a positive impact in the real world. Sadly, MiFID II Delegated Act on sustainability preferences does not include any reference to this concept.

> **Recommendation #3**: **Provide a framework for financial advisors' training in sustainable finance.** It is necessary to ensure that financial advisors have a solid and wide enough knowledge of sustainable finance to properly inform retail clients, carry out a comprehensive suitability assessment and generate adequate recommendations. Even though the obligation to acquire knowledge on sustainable products can be deduced from current legal and regulatory framework and upcoming changes of MiFID II Delegated Act on sustainability preferences, an update of ESMA guidelines for the assessment of knowledge and competence of distributors to integrate sustainability preferences would seal the deal. This obligation should be accompanied by the development of specific certifications at national level for entities providing training on sustainable finance[67]. National regulators should be cautious when providing such certification to ensure a high quality of training. In addition, precise guidance on the content of the exam and minimum level of knowledge to pass the exam could be provided to ensure harmonized level of knowledge on the market.

## Limiting the risk of influence and exploitation

The results of the 2021 campaign also highlight a risk of influence by financial advisors on the expression of clients' sustainability motivations.

It is clear in the MiFID II Delegated Act on sustainability preferences that conflicts of interest should not damage sustainability preferences of clients. Financial advisors should advise while staying as objective as possible in order not to influence retail clients.

Paradoxically, even though legislative and regulatory framework put forward an ambition of tackling conflict of interest, new rules contained in MiFID II Delegated Act on sustainability do not fully prevent risks of influence or may even de facto create some.

Considering the current incomplete offer of sustainable products within many banking networks, there is a possibility that financial advisors find themselves unable to propose financial products matching both financial and sustainability preferences of clients. MiFID II Delegated act on sustainability preferences foresees this situation: it leaves the possibility that if a financial advisor does not have in his or her product range a financial product meeting the client's sustainability preferences, then he/she can recommend another financial product provided that he/she articulates that the financial product does not match the client's sustainability preferences.[68] The retail client can then adapt his or her sustainability preferences.

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[66] "How to Avoid the Greenwashing Trap: recommendations on transparency and minimum requirements for sustainable investment approaches and products" from the Asset Management Association Switzerland and Swiss Sustainable Finance, December 2021

[67] As provided by the French regulator AMF in Instruction DOC 2021-03 « Conditions de certification par l'AMF d'un organisme de formation afin de faire passer l'examen AMF finance durable »

[68] Amended article 54(10) of Delegated Regulation (EU) 2017/565

We understand that this possibility to adapt sustainability preferences of clients aims at avoiding the multiplication of cases where the financial advisor cannot make a recommendation because no product meeting both financial objectives and sustainability preferences is available.

However, even though the possibility to adapt sustainability preferences of the client is a necessary option in practice, it should be strictly framed and supervised.

We see two situations of influence that may easily be created by a poor application of rules established under MiFID II Delegated Act on sustainability preferences.

1. The initial expression of sustainability preferences of the client can be influenced to fit to the product range of the financial advisor. This may happen for example if the financial advisors put forward pre-defined choices of level of sustainability (corresponding to what is available in the product range) without letting the client first express his or her own preferences.
2. Eventually, the client may be induced to adapt his or her sustainability preferences. Indeed, in case there is no product meeting both financial objectives and sustainability preferences, the financial advisor may encourage the client to abandon its sustainability preferences and to adapt them to the characteristics available in the product range, while a more suitable product could potentially exist on the market. Due to the lack of knowledge of retail clients in sustainable finance it is unlikely that they would take the initiative to browse sustainable products existing on the market at their own initiative.

Moreover, it is key to underline that MiFID II Delegated Act on sustainability preferences doesn't account for impact-oriented clients. Hence, financial advisors do not have guidance so far on how to handle clients with such a goals. For this category of client, the risk of mis-selling will be especially high.

**Recommendation #4: Prevent predefined choice options built upon the product range of the distributor in the assessment of sustainability preferences.** We encourage the European regulator to specify in the updated guideline accompanying the application of MiFID II Delegated Act on sustainability preferences that financial advisors should first ask retail clients about their sustainability preferences (and motivations) without narrowing it to predefined choices built upon the product range.

**Recommendation #5: Offer clarifications on how to respond to sustainability preferences.** We invite the European regulator to provide clear guidance for financial advisors on how to present sustainability characteristics of financial products to ensure proper comparability between offers. Moreover, a clearer explanation from the legislator and/or regulator on the links between SFDR categories and MIFID II categories would ensure a harmonized classification of sustainable products amongst financial institutions.

**Recommendation #6: Provide strict guidance regarding the possibility to adapt sustainability preferences.** It would also be welcomed, if the European regulator could clarify in the guidelines that, in case no product match sustainability preferences, financial advisors should be totally transparent about missing sustainability characteristic within their product range, and inform clients that more suited products may be available elsewhere, before proposing to adapt sustainability preferences. In order to provide clients with a global view on sustainable products available on the market, the regulator could build **an official market map of sustainable products**[69] that could be required to be handed over to clients. Alternatively, advisors could be commanded by the regulator (at European or national level) to provide links to informational platforms (such as 2DII's My Fair Money) that give a holistic view on products available on the market.

[69] This official market map would list all categories of sustainable financial products available in the market and could be used to represent which products could fit the client's profile (especially risk tolerance and sustainability goals) in and out of a bank's offer.

Eventually, we recommend implementing necessary supervision to control the correct application of MiFID II Delegated Act on sustainability preferences.

**Recommendation #7: Exercise supervisory controls on financial advisors' practices.** National supervisors should enhance scrutiny on the assessment process and control the suitable matching between information collected on sustainability preferences and the actual product recommendation. More detailed guidance from the European regulator on record keeping would ease supervision on this process. And so would a regular use of mystery shopping visits by supervisors.

# Conclusion

The major finding of this paper is twofold. On the one hand, the 2021 mystery shopping campaign across six European countries documents that, currently, financial advisors' practices are very heterogeneous and often fall below the standards set by MiFID II Delegated Act on sustainability preferences. On the other hand, even if the upcoming application of that additional piece of legislation will be an important milestone to advance retail finance transition towards sustainability, it will not solve all the pending issues regarding the consideration of clients' preferences, the advisors' knowledge and the potential conflicts of interest.

Consequently, we provided a list of five recommendations to improve further legislation, regulation and supervision with regard to the consideration of sustainability preferences and wider sustainability motivations and its translation into adequate advice.

That set of recommendations could also inspire financial institutions that want to go beyond existing legal requirements to improve the quality of their service to the constantly growing number of clients interested into sustainability issues.

To us, financial institutions in search for the highest standard of quality and professionalism should: i) aim at building a comprehensive assessment of sustainability preferences including wider sustainability motivations; ii) take all precautions necessary to properly identify and advise impact-motivated clients by using adapted explanations and disclaimers[70]; iii) dispose of sustainability experts at branch or regional level so that clients that pose difficult questions to their non-expert financial advisors could be easily connected to knowledgeable locutors and iv) implement in-house procedures to accommodate sustainability-interested clients while mitigating risks of influence, such as avoiding strict client profiles' menus built upon the product range, being fully transparent about potentially missing products in the offer range and systematically informing the client when he/she can find a more suitable product on the market.

Overall, such a transparent positioning from financial institutions would contribute to boosting trust by retail clients in the sector's sustainability claims.

Even if it may sound bold, it is just in line with the overarching duty for investment firms and advisors to act in their client's best interests.

[70] See our work on the "Climate Impact Management System" and on impact marketing claims: "Sustainable Finance and Market Integrity: Promise Only What You Can Deliver".

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# Appendix: Methodology of the 2021 campaign

The European Banking Authority proposed a methodology for mystery shopping visit activities (performed by nationally competent authorities) made of seven steps. We present in the next sections how our own methodology complies with those guidelines.

**Figure 12: Key steps in designing and implementing a mystery shopping activity (EBA)**

*Source: European Banking Authority*

## a. Definition of the goals

As mentioned above, the research objectives of the campaign have been clearly specified and encompass three dimensions:

1. The study of how financial advisors integrate potential client's sustainability motivations in their product recommendations;
2. The (informal) evaluation of the knowledge of financial advisors with regard to sustainable finance concepts and products;
3. The tone and arguments used by financial advisors when they recommend green/sustainable financial products to potential clients.

## b. Selection of financial products and distribution channels

The 2021 mystery shopping campaign clearly focuses on green/sustainable financial products proposed to retail clients in bank networks. It is interested in the behaviors of financial advisors employed in large networks and leaves aside independent financial advisors.

## c. Selection of financial institutions

As stated by the EBA, "in most cases, it is desirable for a mystery shopping activity to include as many different types of financial institutions and/or distribution channels as possible that provide a particular product/service so as to fully capture the diversity of the conduct of financial institutions in the market and to allow the conclusions of the mystery shopping activity to be robust. Different distribution channels might indeed have different standards of conduct leaving to distinct consumer protection issues". In France and for the EU-6 countries, 13 different bank networks per country in average were visited for these mystery shopping visits (mostly commercial and cooperative banks).

In terms of geographic breakdown, "a mystery shopping activity benefits if the selection of financial institutions in terms of geography is reflective of the aim of the activity. For example, a particular investigation into the conduct of financial institutions may benefit from a geographical scope that explicitly covers rural and/or urban areas".

For our topic, it would have been relevant to include branches from urban and rural areas as there may be exist some preconception that strong sustainability motivations are mostly observed among urban households. For practical reasons (i.e., an easier selection of characters), we nevertheless opt for imposing no geographical constraint in this campaign.

As a logical consequence, **the concentration of visits in large cities was a clear limitation of our campaign.**

## d. Selection of mystery shoppers and consumer profiles

"The characteristics of the consumer profiles that mystery shoppers should portray are to be defined according to the type of consumers that are meant to be the subjects in the MS activity or that would fall within the target market of the products and services under scrutiny."

A" consumer profile describes the characteristics of the individual that the mystery shopper will portray during the exercise, for example in terms of the degree of financial literacy, degree of aversion to financial risk, gender, ethnicity, age and/or other characteristics relevant to effectively achieving the goal of the MS activity."

To cover a representative panel of key clients who may turn to a financial advisor for advice, six profiles of mystery shoppers were drawn up, each defined by their varying degrees of interest in investing in green financial products (2 types) and their financial risk tolerance (3 types). Regarding their willingness to invest in green financial solutions, shoppers can display either a strong willingness to do so or being agnostic about it (i.e., don't know what to do and may question themselves). Regarding their financial risk tolerance, shoppers were assigned to have a high, average, or low risk tolerance and were asked to communicate such risk preferences during the meeting.

This 2*3 profiling[71] method leads to six different profiles, as shown in the table below.

| Profiles | Profile #1 | Profile #2 | Profile #3 | Profile #4 | Profile #5 | Profile #6 |
|---|---|---|---|---|---|---|
| **Risk preferences** | Low risk tolerance | | Average risk tolerance | | High risk tolerance | |
| **Sustainability motivations** | Wants to invest green | Agnostic | Wants to invest green | Agnostic | Wants to invest green | Agnostic |

In France, we assigned risk profiles in proportions in line to the frequencies observed in the real life referring to statistics provided by the banking networks that participated in a study conducted by the AMF[72]: risk averse profiles represent 50%, balanced profiles 35%, risk-taking profiles 15%.

In France, sustainability motivations were split up according to the percentage used in 2DII's previous studies[73]: 2/3 of people wants to invest green and 1/3 is agnostic.

In view of the lower quotas of visits for the EU-6 countries (between 20 and 40 per country), we considered to equally split up the risk criteria (1/3 risk-averse, 1/3 balanced, 1/3 risk-taker) and sustainability motivations (½ wants to invest green, ½ agnostic) to facilitate distribution.

For French mystery shopping visits, which 2DII directly managed, we recruited comedians to act as shoppers. However, for other European countries it was more difficult to ask the agency to recruit comedians who were not in their database. Hence, they instead selected profiles from their database that would fit for the task (i.e., people with financial literacy and/or and green preferences).

Recruitment for the French campaign was directly managed by 2DII and with a total of 90 visits and 6 profiles, we decided to recruit 6 people (15 visits per character). Some of the mystery shoppers were recruited in the framework of a qualitative study about retailers' ESG preferences 2DII lead with 80 people in 2021. They were chosen because of their clear way of expressing themselves and their interest in sustainability. Other mystery shoppers were comedians, due to their ability to adapt to a situation and follow a script. In total, they were equally male and female between 25 and 55 years old.

For EU-6 countries, Bare International recruited mystery shoppers from its database (500K people) selected for already having participated to financial projects. No age criterion was specified and among the mystery shoppers 52% were female and 48% male. Selected characters were given program guidelines and tested for their understanding of the program objectives. They had to pass the project specific quiz in order to check if they read the guidelines carefully and prepared for the visit. At the end of the quiz a code was shared if the character could answer well all the project related questions. Bare's Ressources Managers encouraged characters to ask their questions and were made available for further details or questions by mail or phone.

### e. Writing of scenarios

All participants have been proposed a script encompassing their consumer profile and a description of the goals and attitudes to be displayed during the interview.

[71] In France we assigned another feature (extra-financial knowledge) for which there were two types (strong or weak), which led us to 12 different profiles.
[72] "Study on the profiling of bank customers and the matching of these profiles with products as part of an investment advisory service", p.14. AMF, May 2020.
[73] « A large majority of clients wants to invest sustainably". 2DII, May 2020.

As suggested by the EBA, the scenarios were:
- Targeted (i.e., designed to test the specific attitudes of financial advisors when confronted to clients with various sustainability motivations)
- Credible (i.e., relies on realistic consumer profiles and requests)
- Straightforward, simple and brief
- Ethical (i.e., does not imply any personal risk or possibility to break the law).

All mystery shoppers are asked to state during the meeting with the advisor that they have a stable professional situation, they own their home and have no outstanding debts. They are about to receive a large amount of money (the amount is defined in accordance to countries' levels of household income and wealth) and declare that they want to invest in financial products the totality of the sum as all their current needs are already satisfied. People are required to present themselves at each visit under their real identity.

All appointments were directly managed by mystery shoppers. They checked the guidelines for any identified questions or contacted 2DII or Bare for support. To be correctly redirected to an advisor who could answer their investment requests, mystery shoppers were asked to specify the amount of money they wished to invest at each call (50K€ for France for example but the amount was adjusted in each country in relation with local income).

According to EBA, "training and briefing materials serve to train the mystery shoppers on how the interaction should play out. This is critical to ensure consistency, quality, and the overall success of the MS activity, no matter the size or scale. Deploying video training and briefing materials via short, engaging multimedia clips could be seen as an effective way for mystery shoppers to understand better the scenario and adapt to various situations. As part of the training, pilot phases could also be planned for mystery shoppers to test the scenario and to ensure that it makes sense in a real-life situation as well as to check that briefing notes and assessment questionnaires - which should be designed at the same time as the MS scenario is defined (see step 6 for details) - adequately cover all the issues to be reported by the mystery shopper."

Recruited mystery shoppers were offered a training that included both a theoretical part and a practical part in order to get prepared for their interviews with financial advisors.

The theoretical part included presentation of Mifid requirements for financial advisors and explanations of sustainable finance key concepts (ESG, SRI, best-in-class, exclusions, etc.) and tools (sustainable funds, labels…).

The practical part revolved around particular points to be addressed during the interview for each profile, methods for optimizing appointment scheduling and simulations of interviews.

### f. Design of assessment questionnaires

In parallel to the design of the MS scenarios and scenario briefing materials, an assessment questionnaire for mystery shoppers was prepared. The assessment questionnaire represents a set of questions the mystery shopper will answer right after attending the interview with the financial advisor.

As suggested by EBA, the assessment questionnaire was
- developed in an organized and systematic manner (i.e., to be completed by all characters);
- objective (i.e., mostly relying on actual observations instead of feelings);
- maintained as short as possible and linked to the MS goal.

Nevertheless we struggled to limit the number of feedback questions. In further iterations, we will have to pay deep attention to this problem. In some countries, following Bare International's requests, we had to shorten the assessment questionnaire.

Mystery shoppers were trained in how to complete the assessment questionnaire.

## g. Assessment of the findings and follow-up

The French mystery shoppers were invited after each appointment to fill the assessment questionnaire through a survey application (Survey Monkey) that could be filled online from a smartphone or a computer.

For post-appointment reporting in the EU-six countries, mystery shoppers filled a feedback form online too. Completed evaluations was reviewed by Bare's Quality Control team to ensure evaluations were carried out in conformity with the guidelines and in due time. Bare provided to 2DII access codes to see in real time results per country and deliver excel tables with all results at the end of the campaign.

Mystery shoppers were also required to forward any material that would have been transmitted to them by the advisor. They could contact 2DII or Bare International for any additional questions before or after the appointment.

We received different types of materials forwarded by the shoppers after their appointments: product brochures, meeting reports, funds' ISIN codes, etc.

Once the assessment questionnaires and the additional materials were collected, we implemented an analysis of results in a quantitative (for closed questions) and qualitative manner (for verbatims of open questions), both at country and aggregate levels.